

# Indirect Costs & Cost Allocation Plans

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# Indirect Costs & Cost Allocation Plans

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## Learning Objectives

1. Define direct and indirect costs.
2. Gain awareness about changes to indirect costs.
3. Recognize different indirect rates and formulas.
4. Review considerations relating to indirect rates.
5. Identify the benefits of cost allocation plans.

# Indirect Costs & Cost Allocation Plans

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## A Few Words

# Indirect Costs & Cost Allocation Plans

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## A Few Words

Office of Management and Budget (OMB) merged eight previously separate grant circulars into one “uniform” guidance.

There are still many provisions that are not uniform.

# Indirect Costs & Cost Allocation Plans

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## A Few Words

These differences are most striking in the provisions for indirect costs.

# Learning Objective #1

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## Direct and Indirect Costs

# L01: Direct and Indirect Costs

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## Direct Costs ( § 200.413)

- Direct costs are those that can be identified specifically with a particular project.
- Direct costs can be accurately assigned.
  - Staff salaries.
  - Materials and equipment.
  - Travel.

# L01: Direct and Indirect Costs

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## Indirect Costs ( § 200.56)

- Indirect costs are shared costs that cannot be easily assigned to a particular program.
  - Payroll.
  - Human resources.
  - Maintenance.
  - Utilities.



# L01: Direct and Indirect Costs

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## **Modified Total Direct Costs ( § 200.68)**

- MTDC includes salaries, fringe benefits, materials, services, travel, and subawards up to the first \$25,000.
- MTDC excludes equipment, capital expenditures, patient care, rentals, tuition, scholarships, participant support costs.

# L01: Direct and Indirect Costs

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## **Rules To Determine the Difference ( § 200.412)**

- No universal rule.
- Consistent treatment.
- No double-charging as both direct and indirect.

# Learning Objective #2

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## Changes to Indirect Costs

# L02: Changes to Indirect Costs

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## **Acceptance of Rate ( § 200.414(c)(1))**

- Federal agencies and pass-through entities must accept a nonfederal entity's approved rate unless there is a program statute or approved agency regulation otherwise.
  - Reduces ability to restrict or deny indirect costs.

# L02: Changes to Indirect Costs

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## Pass-through Entities ( § 200.331)

- Must accept a subrecipient approved rate, or if no rate:
  - Negotiate a rate, or
  - Allow the 10 percent *de minimis* flat rate to eligible subrecipients.

# L02: Changes to Indirect Costs

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## **Extension of Rate ( § 200.414(g))**

- Nonfederal entity may apply for an extension up to four years, in certain circumstances:
  - Requires prior written approval.
  - Revenue must be stable from year to year.
  - Extension can be requested again after four years.

# L02: Changes to Indirect Costs

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## **Waived or Unrecovered Indirect ( § 200.306(c) )**

- Once a rate is approved, a nonfederal entity may elect to waive indirect costs:
  - Some or all.
  - May apply to cost sharing with prior written approval.

# L02: Changes to Indirect Costs

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## State of Maryland Changes

- Senate Bill 1045
  - Enacted into law April 2018
  - Aligns with uniform guidance.
  - Improves indirect cost recovery.
  - *De minimis* rate now applicable to state-funded grants and contracts starting 10/1/18.



# Learning Objective #3

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## **Different Indirect Cost Rates and Rate Formulas**

# L03: Different Rates and Formulas

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## Basic Types of Rates ( § 200.414)

- Provisional, Final.
- Predetermined.
- Fixed rate with carry-forward.
- *De minimis* or 10 percent flat rate.
- Facilities & Administrative (F&A).
- Fringe benefits.

# L03: Different Rates and Formulas

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## **Provisional Rates ( § 200.414)**

- Temporary, optional, estimated.
- Applied before final rate is approved.

# L03: Different Rates and Formulas

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## Provisional Rates ( § 200.414)

- Benefit: Enables a nonfederal entity to use a temporary, estimated indirect rate while waiting for the approved final rate.
- Risk: If the final rate is different, there would be an adjustment, specifically, excess claimed costs must be repaid.

# L03: Different Rates and Formulas

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## **Final Rates ( § 200.414, App IV C.1.d)**

- Based on actual costs from a prior period.
- Rates are proposed and negotiated each year.
- Once approved, final rates are not subject to an adjustment.
- Final rates can change from year to year because they are reviewed and approved each year.

# L03: Different Rates and Formulas

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## Process To Obtain Final Rates

- Takes a minimum of two years.
  - FY 2016 actual costs.
  - FY 2017 develop and submit indirect proposal.
  - FY 2018 obtain approved final rate to use.
- Often takes longer, resulting in a provisional rate.

# L03: Different Rates and Formulas

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## **Predetermined Rates ( § 200.414, App. IV C.1.b)**

- Based on estimated (not actual) costs.
- Not subject to adjustment.
- A type of “fixed” rate, year to year.
  - Stable, established nonfederal entity.
  - Same awards, little fluctuation year to year.
  - Actuals are compared to estimates at year end.
  - Traditionally, actuals are close to estimates.

# L03: Different Rates and Formulas

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## **Fixed Rate with Carry Forward (App. IV C.1.c)**

- Stable rate, but a change occurs between estimated to actual.
- Difference is carried forward to the next year as an adjustment, rather than a repayment.
- Prior written approval.
- No four-year extension ( § 200.414(g)).



# L03: Different Rates and Formulas

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## ***De Minimis* Rate ( § 200.414, App VII D.1.b)**

- Two eligibility requirements.
  - Never had an indirect rate (Subpart E).
  - Less than \$35M in federal funds (Appendix VII).
- 10 percent flat rate of MTDC.
- May use indefinitely.

# L03: Different Rates and Formulas

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## ***De Minimis* Rate ( § 200.414, App VII D.1.b)**

- No required indirect cost rate proposal
- Benefit: Reduced administrative burden.
- Risk: Unclear which costs are direct and indirect.
  - Costs consistently applied.
  - No double-dipping.
  - Best practice: Create a local policy or certification about the *de minimis* rate.

# L03: Different Rates and Formulas

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## **F&A Rates ( § 200.414, App VII D.1.b)**

- Institutions of higher education use facilities and administrative (F&A) rates due to large campuses.
  - Building costs (facilities) + general overhead (admin).
  - Cap on administrative part of the rate.

# L03: Different Rates and Formulas

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## **Fringe Benefit Rate ( § 200.431(d))**

- Shared employee costs.
  - Health insurance.
  - Retirement of pension plans.
  - Leave (sick, vacation, jury duty).
- May be assigned to cost objectives or may be allocated entity-wide, which would affect indirect cost rate formula.

# L03: Different Rates and Formulas

## Fringe Benefit Rate ( § 200.431(d))

| Section B – Budget Categories |        |        |        |        |       |
|-------------------------------|--------|--------|--------|--------|-------|
| Object Class Categories       | Year 1 | Year 2 | Year 3 | Year 4 | Total |
| Personnel                     |        |        |        |        |       |
| Fringe Benefits               |        |        |        |        |       |
| Travel                        |        |        |        |        |       |
| Equipment                     |        |        |        |        |       |
| Supplies                      |        |        |        |        |       |
| Contractual                   |        |        |        |        |       |
| Construction                  |        |        |        |        |       |
| Other                         |        |        |        |        |       |
| Total Direct Charges          |        |        |        |        |       |
| Indirect Charges              |        |        |        |        |       |
| <b>Total</b>                  |        |        |        |        |       |

# L03: Different Rates and Formulas

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## Rate Calculations

- We could spend two days on just rate calculations.
- Following slides provide a general overview.

# L03: Different Rates and Formulas

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## Rate Calculations

- Rate is calculated based on formulas using a ratio of indirect to direct costs.
- Intended to contribute toward overhead.
- Based on allowable costs.
- Factors that affect which calculation is best.

# L03: Different Rates and Formulas

## Example of Rate Data

| Indirect Costs              | Direct Costs              |
|-----------------------------|---------------------------|
| -----                       | -----                     |
| -----                       | -----                     |
| -----                       | -----                     |
| -----                       | -----                     |
| -----                       | -----                     |
| Less (unallowable indirect) | Less (unallowable direct) |
| <b>TOTAL: I</b>             | <b>TOTAL: D</b>           |

$$I/D = \underline{\quad}\%$$



# L03: Different Rates and Formulas

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## Different Rate Formulas

- Salaries and wages.
- Salaries and wages + fringe benefits.
- Total direct costs.
- Modified total direct costs (MTDC).

# L03: Different Rates and Formulas

## Salaries and Wages

| Indirect Costs             |                 | Direct Costs                   |                  |
|----------------------------|-----------------|--------------------------------|------------------|
| Executive Dir              | \$95,000        | Project Staff                  | \$150,000        |
| Fringe Benefits            | \$23,750        | <b>Fringe Benefits</b>         | <b>\$ 37,500</b> |
| Equipment                  | \$ 2,500        | <b>Equipment</b>               | <b>\$ 7,500</b>  |
| <b>Entertainment</b>       | <b>\$ 1,500</b> | <b>Entertainment</b>           | <b>\$ 0</b>      |
| Contract                   | \$ 0            | <b>Contract</b>                | <b>\$ 10,000</b> |
| Contract                   | \$ 0            | <b>Contract</b>                | <b>\$ 40,000</b> |
| Less (unallowable \$1,500) |                 | Less (\$37,500, 7,500, 50,000) |                  |
| <b>TOTAL: \$121,250</b>    |                 | <b>TOTAL: \$150,000</b>        |                  |

# L03: Different Rates and Formulas

## Salaries and Wages + Fringe Benefits

| Indirect Costs             |                 | Direct Costs            |                  |
|----------------------------|-----------------|-------------------------|------------------|
| Executive Dir              | \$ 95,000       | Project Staff           | \$ 150,000       |
| Fringe Benefits            | \$ 23,750       | Fringe Benefits         | \$ 37,500        |
| Equipment                  | \$ 2,500        | <b>Equipment</b>        | <b>\$ 7,500</b>  |
| <b>Entertainment</b>       | <b>\$ 1,500</b> | <b>Entertainment</b>    | <b>\$ 0</b>      |
| Contract                   | \$ 0            | <b>Contract</b>         | <b>\$ 10,000</b> |
| Contract                   | \$ 0            | <b>Contract</b>         | <b>\$ 40,000</b> |
| Less (unallowable \$1,500) |                 | Less (\$7,500, 50,000)  |                  |
| <b>TOTAL: \$121,250</b>    |                 | <b>TOTAL: \$187,500</b> |                  |

# L03: Different Rates and Formulas

## Total Direct Costs

| Indirect Costs             |                 | Direct Costs            |           |
|----------------------------|-----------------|-------------------------|-----------|
| Executive Dir              | \$ 95,000       | Project Staff           | \$150,000 |
| Fringe Benefits            | \$ 23,750       | Fringe Benefits         | \$ 37,500 |
| Equipment                  | \$ 2,500        | Equipment               | \$ 7,500  |
| <b>Entertainment</b>       | <b>\$ 1,500</b> | Entertainment           | \$ 0      |
| Contract                   | \$ 0            | Contract                | \$ 10,000 |
| Contract                   | \$ 0            | Contract                | \$ 40,000 |
| Less (unallowable \$1,500) |                 | Less (\$0)              |           |
| <b>TOTAL: \$121,250</b>    |                 | <b>TOTAL: \$245,000</b> |           |

$$\$121,250 / \$245,000 = 49\%$$

# L03: Different Rates and Formulas

## Modified Total Direct Costs

| Indirect Costs             |                 | Direct Costs             |                  |
|----------------------------|-----------------|--------------------------|------------------|
| Executive Dir              | \$95,000        | Project Staff            | \$150,000        |
| Fringe Benefits            | \$23,750        | Fringe Benefits          | \$ 37,500        |
| Equipment                  | \$ 2,500        | <b>Equipment</b>         | <b>\$ 7,500</b>  |
| <b>Entertainment</b>       | <b>\$ 1,500</b> | Entertainment            | \$ 0             |
| Contract                   | \$ 0            | Contract                 | \$ 10,000        |
| Contract                   | \$ 0            | <b>Contract</b>          | <b>\$ 40,000</b> |
| Less (unallowable \$1,500) |                 | Less (\$7,500, \$15,000) |                  |
| <b>TOTAL: \$121,250</b>    |                 | <b>TOTAL: \$222,500</b>  |                  |

$$\$121,250 / \$222,500 = 54\%$$

# L03: Different Rates and Formulas

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## Different Rate Formulas

- Same list of actual costs, same data.
- Different formula produces a different rate.
- Here's the challenge – Which rate to use?
  - Is 80% on salaries better than 49% on all direct costs?
  - Is 54% of MTDC better than 49% on all direct costs?

# Learning Objective #4

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## Considerations about Indirect Rates

# L04: Considerations

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## **To Pursue or Not Pursue a Negotiated Rate**

- Takes time.
- Requires knowledge and skills.
- Takes resources to prepare the proposal.
- Requires review and negotiation.
- Often subject to audit findings.
- Requires a written policy/indirect cost statement.



# L04: Considerations

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## To Pursue or Not Pursue a Negotiated Rate

- Not charging indirect costs allows all awarded funds to support direct costs for the project.
  - Awarding agencies often prefer direct costs.
  - Some program staff often prefer direct costs.

# L04: Considerations

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## To Pursue or Not Pursue a Negotiated Rate

- Charging indirect costs helps relieve a financial burden for the recipient/subrecipient.
  - Financial staff generally prefer indirect costs.
  - Some or all indirect costs can be waived.
  - Some or all indirect costs can be used to meet cost sharing requirements.

# L04: Considerations

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## To Waive or Not To Waive Indirect Costs

- Once a nonfederal entity has a negotiated rate, it can waive indirect costs, if desired.
  - Can claim a lower amount, or none.
  - Can use waived/unrecovered indirect for cost sharing, with prior written approval.
  - Can allocate more of the project funding to direct costs.

# L04: Considerations

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## Example: Waived Indirect on \$100,000 Award

- Nonfederal entity has a 28 percent rate.
  - \$28,000 to indirect costs.
  - \$72,000 to direct costs.
- With 20 percent cost sharing requirement:
  - \$20,000 waived indirect to cost sharing (to direct).
  - \$8,000 to indirect.
  - \$92,000 to direct costs (\$72,000 + \$20,000).

# L04: Considerations

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## To Use or Not To Use a *De Minimis* Rate

- Must be eligible.
  - Never had an indirect rate.
  - Under \$35M threshold of federal awards.
- Based on MTDC.
- May use indefinitely.
- No need for an indirect cost rate proposal.

# L04: Considerations

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## To Use or Not To Use a *De Minimis* Rate

- Must be consistent.
- Must not double-dip, double-charge.
- Best practice: Create a local policy or certification that describes how the *de minimis* rate would be applied.

# Learning Objective #5

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## **Cost Allocation Plans**

# L05: Cost Allocation Plans

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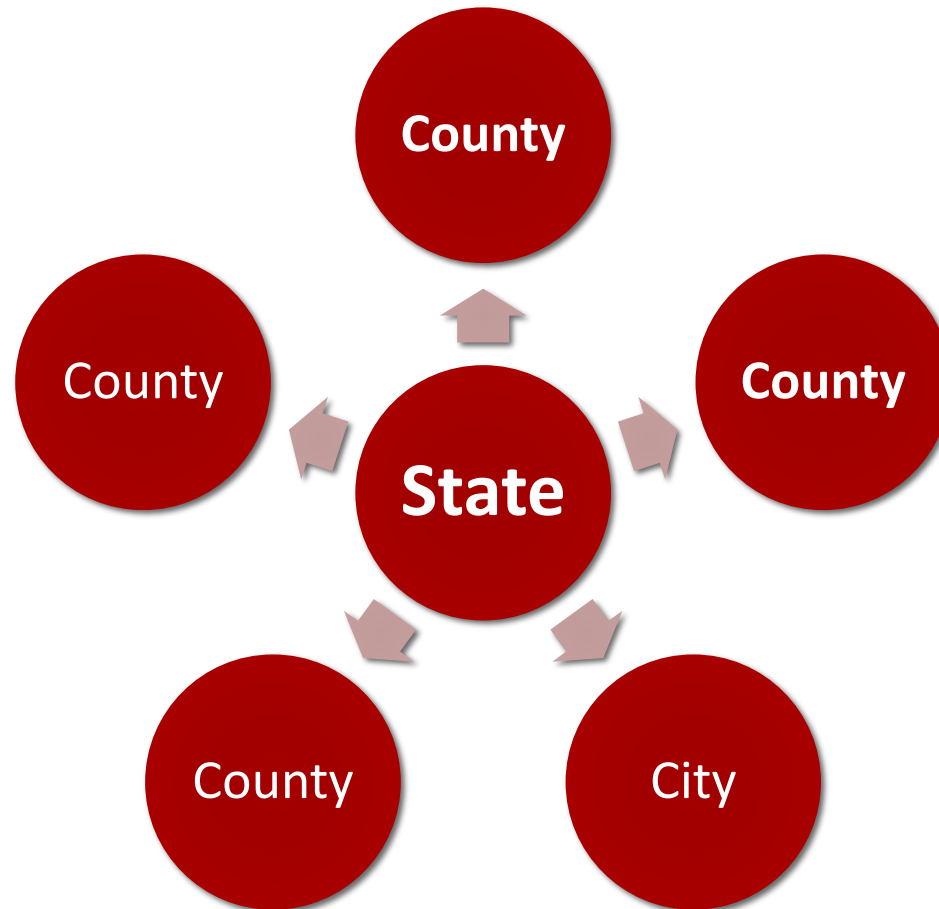
## **Cost Allocation Plans and Indirect Costs**

- Cost allocation plans are associated with indirect costs of a larger agency and its networked agencies, such as state/local governments.
- Cost allocation plans involve shared services among the related agencies.
- Recipients/subrecipients may also be able to receive shared services.



# L05: Cost Allocation Plans

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# L05: Cost Allocation Plans

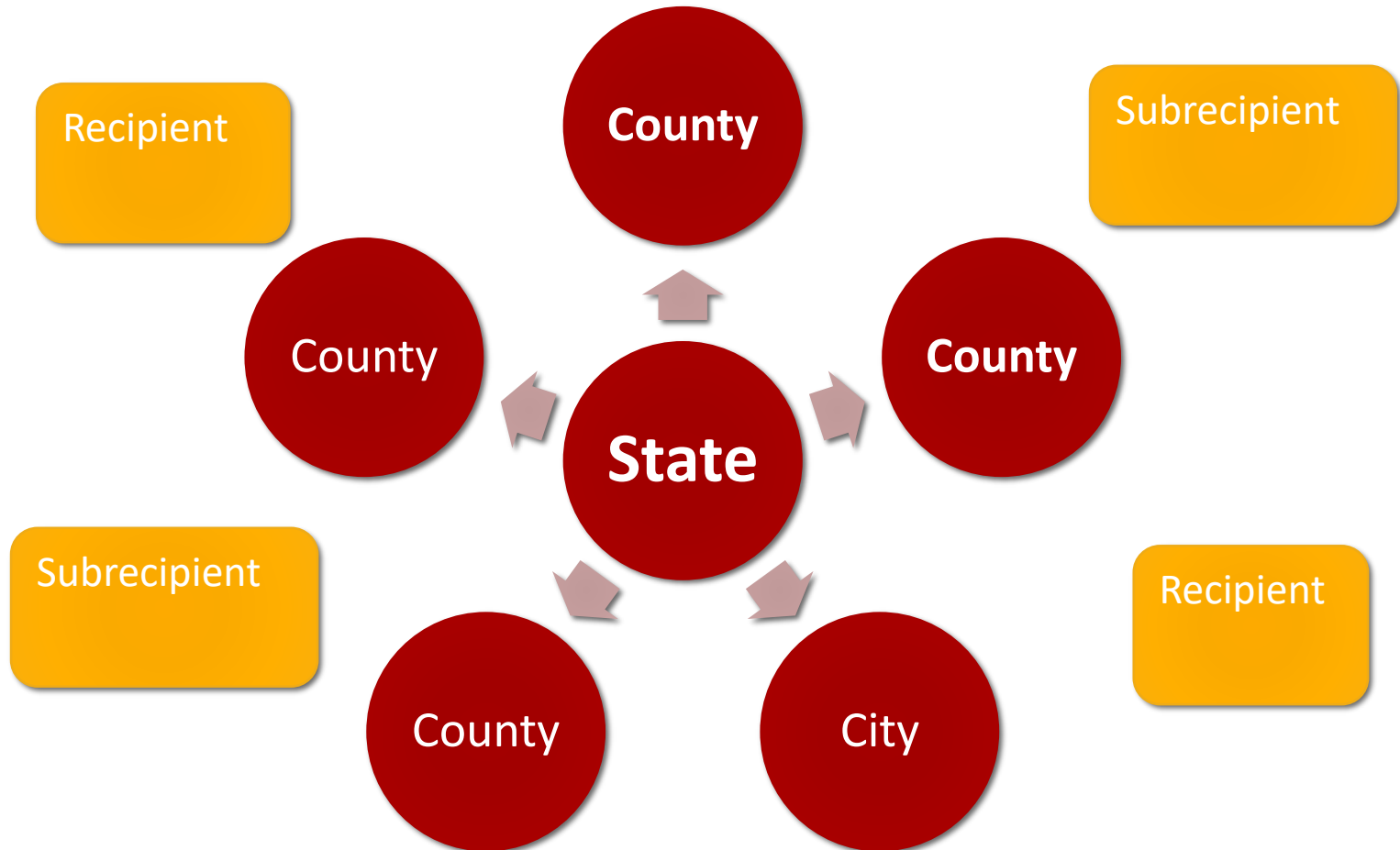
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## Cost Allocation Plans and Indirect Costs

- Reminder: Indirect costs are shared services in one organization or agency.
- Cost allocation plans are shared costs among related agencies.
  - State/county agencies.
  - County/city agencies.
  - Recipients/subrecipients.

# L05: Cost Allocation Plans

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# L05: Cost Allocation Plans

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## **Cost Allocation Plans ( § 200.416, App. V, VI)**

- Examples of shared costs in a cost allocation plan:
  - Motor pools.
  - Computer centers.
  - Retirement or pension plans.
  - Snow removal, grass cutting services.
  - Copier paper.
  - Maintenance of websites.

# L05: Cost Allocation Plans

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## **Cost Allocation Plans ( § 200.416, App. V, VI)**

- For states, local and tribal governments that provide centralized or shared services to related agencies, “there needs to be a process whereby these central service costs can be identified and assigned on a reasonable basis.”
- Cost allocation plans provide that process.

# L05: Cost Allocation Plans

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## **Cost Allocation Plans ( § 200.416(b))**

- Indirect costs for larger agencies generally include indirect costs for the agency itself and indirect costs for the shared services distributed to smaller agencies within its networked structure.

# L05: Cost Allocation Plans

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## **Cost Allocation Plans ( § 200.416(c))**

- Requirements for cost allocation plans:
  - Appendix IV: Nonprofits (good definitions).
  - Appendix V: State, local, and tribal governments.
  - Appendix VI: Public assistance agencies.

# L05: Cost Allocation Plans

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## Appendix IV

- Generally for nonprofits.
- Includes good definitions.



# L05: Cost Allocation Plans

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## Appendix V

- Appendix V A.2 includes reference to a brochure published by HHS, *“A Guide for State, Local and Indian Tribal Governments: Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government.”*

# L05: Cost Allocation Plans

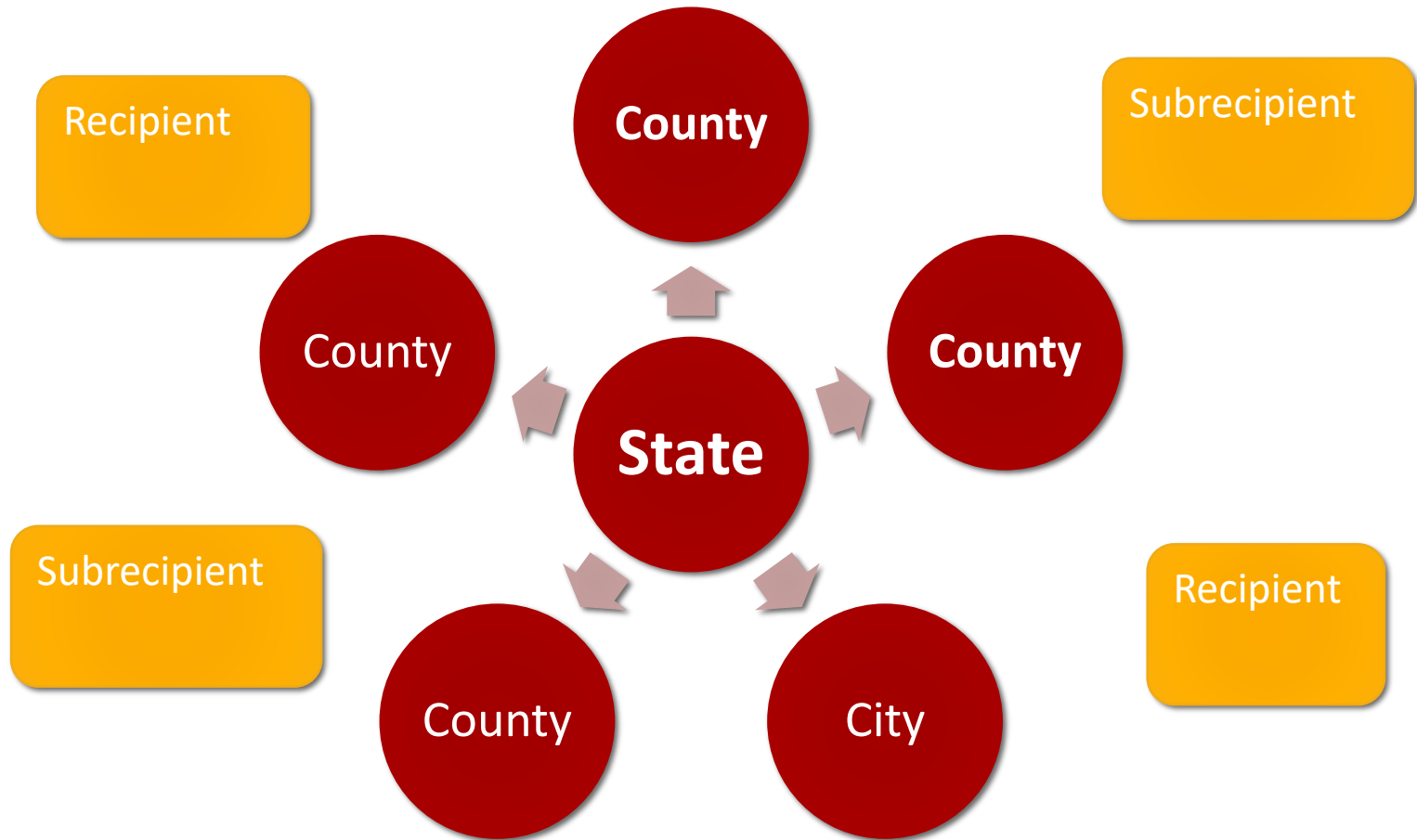
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## Appendix V

- Defines types of shared costs.
  - Allocated or assigned costs (indirect).
  - Billed costs (direct).

# L05: Cost Allocation Plans

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# L05: Cost Allocation Plans

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## **Allocated (or Assigned) Costs**

- Shared by the larger agency with the smaller agencies within its structure.
- No fees for the smaller agencies.
- Allocated costs are incorporated into the indirect cost rate proposal for the larger agency.

# L05: Cost Allocation Plans

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## **Billed Costs**

- Shared by the larger agency with agencies outside its structure (recipients or subrecipients).
- Fee for service (billed).
- Billed costs earn revenue for the larger agency and are treated as direct costs, not indirect costs.

# L05: Cost Allocation Plans

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## Benefits of Shared Services (Even When **Billed**)

- Attractive pricing.
- Approved vendors/contractors previously vetted.
- Faster delivery and processing.
- Recognized as an efficient procurement process under the uniform guidance (§200.318(e)).

# L05: Cost Allocation Plans

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## Risks of Shared Services

- Audit findings.
- Larger agencies must be able to document and distinguish between allocated and billed services under their cost allocation plans.
- Larger agencies must document receipts from billing.

# Indirect Costs & Cost Allocation Plans

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## Summary

- Different types of costs (direct/indirect).
- Different types of indirect cost rates.
- Different types of indirect rate formulas.
- Cost allocation plans provide shared services either as allocated (indirect) or billed (direct).



# Indirect Costs & Cost Allocation Plans

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## **Additional Q&A**

# Indirect Costs & Cost Allocation Plans

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## Contact Information



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